

**Exhibit 10:**

**Previously filed under seal as Ex. 9 to N. Sugnet  
Declaration (Docket No. 129)**

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**From:** Phillips, Craig (FID) <Craig.Phillips@morganstanley.com>  
**Sent:** Tuesday, November 23, 2004 1:06 PM  
**To:** Binnie, John (IBD); Shapiro, Steven (FID)  
**Cc:** McDonnell, Gail (FID)  
**Subject:** New Century  
**Attachments:** NEW.FRM.profile-35328-1751107.doc

John and Steve,

Attached is a draft of my observations from meetings with New Century on 11/5 - including proposed next steps. In aggregate there is a lot of things to do/think about with them. They certainly are extremely open to our advice and involvement in all elements of their operation. I think implicitly there is a risk that if we don't get closer to them, someone else will.

Interested in getting your thoughts and comments on this. We can consider distribution to a wider audience when we finish it.

Thanks,

Craig



## DRAFT

Notes from Meeting with New Century Financial Corp. on Friday, November 5, 2004

Craig S. Phillips

Meetings with:

Robert K. Cole, Chairman and CEO  
Brad A. Morrice, President and COO  
Ed F. Gotschall, Vice Chairman  
Patti M. Dodge, Chief Financial Officer  
Patrick Flanagan, President  
Kevin M. Cloyd, Executive Vice President  
Jeff Goldberg, Treasurer  
Robin Cook-Auerbach, Senior Vice President

Summary of Meetings:

- Entire management team is extremely pleased with the "partnership" with Morgan Stanley. While they don't keep specific metrics, we are clearly their largest and most important counterparty.
- Recently completed common equity capital raise and conversion to REIT status is obviously highly satisfying to the senior management team. Numerous discussions revolved around how to take advantage of this new quantum of capital.
- Forecast of new originations for FY 2005 is aggressive – indicating yet another up year in volume for NEW.
- The company is very focused on MS equity research commencing coverage of its stock (ML and UBS are set to publish imminently). Adds to existing research by four firms (FBR, Roth, Jeffries and JNP).
- The company is contemplating a variety of capital raising alternatives for 2005 – with several interesting mandates already awarded. A substantial additional common equity raise is targeted for Q2 or Q3 of 2005.
- Interested in closer alliance of interest between the two firms. Explored alignment through some type of commitment at the capital level. Also explored synergies (and potential conflicts) posed by our entry in the conduit space.

Operating Forecasts:

- NEW has publicly forecast that 2005 origination volume will be \$45 billion – up from \$40 billion in 2003 (12.5% YOY change). Privately the managers feel that they will hit a \$50 billion origination mark (25% YOY change). Put in perspective, however, growth is slowing as origination growth from 2001 to 2004 is 86.1% CAGR and YOY change from 2003 to 2004 was 45.9%.

- Based on their business plan, they forecast the retained REIT portfolio balance will grow from \$7.0 billion at 9/30/04 to \$16.0 billion at 12/31/05. The result of this would be for the REIT to retain \$10-12 billion new production, leaving \$30-38 billion for sale. The implications for the potential volume of whole loan sales is not radical if they meet their production targets. Retained seems like the fixed figure though, so variance in production would come out of the loan sale component.
- Goal is to achieve momentum in the stock price, which they think should be achievable since the dividend of \$6.00 on a stock price of \$60 seems like a high yield given the growth history and growth prospects of the Company. Their analysis, showing the "hidden value" of earnings at the taxable sub that are not distributed as the REIT dividend, are compelling. Implication appears to be that with price momentum in the stock they would come again to the market sooner and potentially accelerate the rate of REIT portfolio growth.
- Initiative of growing the third party servicing portfolio continues to be a high priority. A tour of that operation indicated a lot of progress and frankly a tremendous sense of capability and competence.
- Acquisitions are of interest to them – they mentioned a HELOC specialty company they are looking at. Migration into other areas of consumer and commercial and commercial real estate finance seem of potential interest to them. They clearly stated on clear question is "whether they will remain a one-trick pony".
- Strategically the main objectives are to fully implement the retail expansion ("Home 1-2-3"), expand product origination in geographies that are underproducing through infill of additional sales depth and expand into the Alt-A space.
- We had a long discussion of the Interest Only mortgage and their program. They forecast this as 22% of their total originations. While currently in sync with our view on it – there appears to be tension under the surface to either have more liberal inclusion in our whole loan purchases or pursue a disproportionate retention strategy for this slice (a decision that seems controversial inside NEW).

#### Capital Market Objectives:

- NEW interested in term unsecured debt. Has given mandate to Deutsche/Bear Stearns for \$300 million 10 year 144A deal. Anticipated rating seemed unconfirmed but was anticipated in BB area.
- Want to explore straight preferred market – determine if there is retail potential. They cited case study of Public Storage doing a series of preferred offers – felt that is a potential comparable for their business model.
- Target a \$750 million to \$1 billion common stock offering in Q2 or Q3.

#### Interesting Discussion Points Raised During the Course of the Day:

- REIT decision was a difficult one – got very good advice and coverage from others on that subject. The large payout is a difficult element, but offset by large

amount of capital that can be raised and perceived increased safety/operating leeway.

- Aspire to \$100 billion originations a year – and a \$100 billion retained portfolio.
- Very satisfied with distribution of common stock – enjoy investor cultivation and the road show process. Task shared by the entire senior management team. Indicated that retail ownership is now 15%. Many institutions increased previous commitment and participated in offering. Dividend yield was the driver to source new investors – seemed to be a very receptive audience. Did not cite Morgan Stanley performance as either distinguished or deficient. Was very pleased with the bookrunners (“delivered what they said they could plus assisted in strategic advice”)
- Bob Cole asked whether Morgan Stanley would take a capital stake in NEW in exchange for our ongoing treatment as preferred purchaser of whole loan purchasers. He seemed to be acknowledging our preferred role – do we maybe have to do more to earn it in the future?
- Raised numerous questions about risk strategy for retained portfolio. Options include: (i) mirror ratios of total production/sale universe; (ii) take a portfolio view of non-symmetrical accumulation based on value view; or (iii) use portfolio for competitive advantage in products that aren’t readily saleable or new products.
- Intense interest in pressing into Alt-A business. Wants to explore alliance with Morgan Stanley (we refer home equity loans sources through our conduit – they refer prime loans they encounter). Our strategy and perceived invasiveness to their franchise is a potential meaningful relationship issue.
- Management reflected no particular interest in hedging the credit risk of the retained portfolio. They seem intent on hedging the interest rate risk, although given the relatively new nature of the retention strategy it is not totally clear that they have robust capability in that regard. They seem to think that the market “pays them” for taking risk – yet they would obviously have a major performance problem in stress scenarios.
- We talked a lot about how you create more “sticky and proprietary” relationships with their broker network. Providing warehouse lines was one idea – moving up in credit and product diversity was another. We should explore this further.

#### Followup Items:

- Assist NEW in a review of their current small commercial mortgage loan origination venture and make recommendations to enhance. Determine their strategic interest in investing in aspects of the commercial mortgage business (rationale was not clear based on comments that were made – although the subject came up several times).
- Stay in touch on HELOC originator acquisition that is under negotiation to be acquired. Wants advice on securitization and potential warehouse funding down the road.
- Initiate discussions to develop buckets for prime residential and Alt-A residential on our current warehouse lines. We should strategically survey the warehouse line and make sure it is big enough and price well enough. They view us as “at

market” – maybe we should be better than market to preserve such a key interest in their business?

- Revive discussions on potential private label warehouse lines for NEW correspondents funded as adjunct to Morgan Stanley warehouse lines.
- Further explore NEW’s credit and hedging needs and capabilities – potential strategic alliance with Morgan Stanley?
- Discuss their objectives for long-term unsecured debt ratings – assist in optimizing their business model to meet those objectives.
- Collaborate on ways Morgan Stanley/NEW can work together in diversifying their originations in terms of channel and credit quality.
- Have a more open discussion about our platform and theirs and potential conflicts – should be dealt with as an issue more openly to avoid it growing into a large problem with such a key client. (Note: they inquired about our Nexstar relationship – MS Credit Corp?)
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- Equity coverage is critical.
- Initiate ongoing capital markets dialogue on alternative capital raising techniques discussed above – in addition to more robust dialogue on common raise.
- Assist in refining strategy in Interest Only mortgage originations and disposition/retention.
- Any potential to have a revolving trust approach to their on-balance sheet deals.. They want a static state retention on a high CPR product. Could we design such an approach in a non-REMIC?